KKR Partner Defects To the 'New Economy'

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Even one of the nation's major buyout firms can't keep top talent from jumping to the New Economy.

Clifton S. Robbins, a partner at Kohlberg Kravis Roberts & Co. and one of the leaders of its next generation, is going "dot-com." Mr. Robbins, 41 years old, is joining General Atlantic Partners, the high-tech incubator and investor that calls itself the world's largest private equity-investment firm focused exclusively on global information technology. It has $2 billion in capital to invest and a $5 billion investment portfolio.

But what does a high-tech shop want with a buyout guy?

"He's a proven investor," said Steven A. Denning, the managing partner at General Atlantic, which is based in Greenwich, Conn., and has offices in New York and London. "In today's world, that's probably more relevant than one would think. There's a lot of capital being employed by individuals and groups that don't have a proven track record."

The move by Mr. Robbins underscores the seismic shift shaking every corner of corporate America, reflecting the forceful pull of the Web. The so-called New Economy is acting like a "great vacuum" on talent at many levels of the economy, says Todd Petzel, chief investment officer of the Common Fund, which manages more than $20 billion for universities and endowments.

Among the buyout specialists who are defecting to venture firms, he says: "Typically, it's the second or third tier down, where the young people see their prospects as better on the venture-capital side of the business." And Internet firms, in turn, are snagging executives from venture-capital firms. "We've seen young people at venture-capital firms jumping to the Internet firms, leaving money on the table to do so," Mr. Petzel says.

For years, Wall Street bankers would jump at the chance to become a KKR partner. And until recently, many big Wall Street firms would have a decent shot at matching competing offers of bankers itching to jump ship.

All that has changed with the potential riches of the e-universe. William A. Sahlman, a professor of entrepreneurial finance at Harvard Business School, likens the rush of executives to Internet-related ventures to "a tsunami of people chasing a pot of gold."

On Wall Street, Keith Benjamin left his position in October as an Internet stock analyst at Robertson Stephens to open a San Francisco office for Highland Capital Partners, a Boston-based venture-capital firm. In the consulting world, George Shaheen, the former managing partner of Anderson Consulting, now runs Webvan Group Inc., an Internet grocer.

"Many, many different people are moving out of all different sectors of the economy and trying to jump on the Internet bandwagon," Mr. Sahlman says. "It's not at all surprising to see people from the traditional buyout business trying to jump on the bandwagon too."

As many Internet entrepreneurs say, it's not about the money. Mr. Robbins has made a fortune during his 13 years at KKR: He is believed to have a net worth of as much as $100 million, though he wouldn't comment on his financial affairs.

"I have great admiration and respect for my partners at KKR and for the firm," Mr. Robbins says. "But I'm joining General Atlantic because I wanted to be at a firm whose sole focus is information technology and the Internet. I have thoroughly enjoyed my almost 13 years at KKR. But I wanted to take the next stage of my career in a totally different direction."

General Atlantic is best known for its investments in Priceline.com Inc., E*Trade Group Inc., Tickets.com Inc., Compuware Corp., Legent and Baan NV. It has invested in more than 70 information-technology companies, though it currently has about 40 companies in its portfolio.

Henry R. Kravis, a founding partner at KKR, said in a statement that Mr. Robbins "has been a terrific member of the KKR team, and we appreciate the work he's done since he joined our firm. At KKR, we can draw upon a strong and deep team so that our work will continue without interruption."

Mr. Robbins was one of 11 KKR partners and one of only three partners, excluding co-founder Jerome Kohlberg, who have left since the firm's founding in 1976. He will be one of 10 partners at General Atlantic.

Like most buyout firms, KKR is grappling with how to make Internet investments while sticking to its knitting of buyout investing, which largely involves acquiring more mature companies and using debt and improved operations to generate financial returns. Just last week an investment group led by KKR announced the $1.74 billion acquisition of Shoppers Drug Mart, Canada's largest drugstore chain.

Apart from the KKR's corporate funds, its partners individually have been quite involved in venture-capital deals. Mr. Kravis, George Roberts and other senior partners were early investors in Financial Engines, an Internet start-up formed by Nobel laureate William Sharpe; StarMedia Network, a Latin American Internet play; MyPoints.com, an online direct marketing start-up; and more recently, SupplierMarket.com, an online industrial-goods marketplace.

Currently, such investments don't fit the criteria for KKR's mammoth buyout fund, so the fund didn't invest in those deals. But KKR, through its funds, has invested $150 million in Zhone Technologies, a company formed by former executives of Ascend Communications to focus on "the last mile" of telecommunications networks. The funds, along with $150 million from Texas Pacific Group, will help fund acquisitions. It also purchased a stake in Birch Telecom Inc., an upstart provider of telecom services.

Other firms, such as Forstmann Little & Co., Carlyle Group and Fenway Partners, are using their existing funds to make venture-capital-type investments.

In the private equity world, the annual returns tell the story of shifting power. During the fiscal year ended June 30, venture-capital funds generated an average return of 46%, compared with just 8.3% for buyout funds, according to the Venture Economics unit of Thomson Financial Securities Data, Newark, N.J. Over the past five years, venture funds on average also outperformed buyouts funds,

34% to 18% annually. Over the past 20 years, however, buyout funds returned 20% annually, compared with 16% for venture capital.

Many buyout funds are scrambling to get a piece of the venture action. Erica Bushner, who invests in both venture and buyout firms as a principal at Wilshire Associates, a Los Angeles investment manager, says she has been approached by buyout executives for advice. Buyout firms, she says, are taking several approaches. These include trying to set up affiliations with venture firms so they can invest directly in venture deals, investing buyout-fund capital into the venture funds, or setting up Internet funds directly.

"I don't think it's a good sign for the buyout firms," Ms. Bushner says. "The venture-capital side is where the money's at. The buyout firms don't have the Rolodex, they don't know the players, and they don't have the history."